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No. 94-1992

Supreme Court, U.S.
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In The
Supreme Court of the United States
October Term, 1994

FERAG AG,

Petitioner,

v.

QUIPP INCORPORATED,

Respondent.

Opposition To Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

OPPOSITION TO WRIT OF CERTIORARI

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TABLE OF CONTENTS

Page

TABLE OF AUTHORITIES..... v

RULE 29.1 STATEMENT.....viii

OPINIONS BELOW.....viii

STATEMENT OF THE CASE..... 1

SUMMARY OF THE ARGUMENT..... 5

PETITIONER HAS TAKEN GREAT LIBERTY WITH THE FACTS IN IDENTIFYING THE QUESTIONS PRESENTED..... 6

QUESTION 1..... 7
QUESTION 2..... 9
QUESTION 3..... 11

REASONS FOR DENYING THE WRIT..... 13

I. NONE OF THE RULE 10 CONSIDERATIONS ARE PRESENT..... 13

II. THE FEDERAL CIRCUIT FOLLOWED RULE 52(a).....14

III. REVERSAL OF THE FEDERAL CIRCUIT'S DECISION WOULD REQUIRE A HOLDING THAT THE FEDERAL CIRCUIT ERRED AS TO THE LAW AND AN INDEPENDENT HOLDING THAT THE FEDERAL CIRCUIT HAD DISREGARDED RULE 52(a).....16

IV. THE FEDERAL CIRCUIT FOLLOWED WELL ESTABLISHED PRECEDENT AS TO THE LAW, ALL OF WHICH WOULD HAVE TO BE OVERRULED.....17

V. THE CHANGE IN THE LAW SOUGHT BY THE PETITIONER IS CONTRARY TO ESTABLISHED PRINCIPLES OF BOTH CONTRACT AND PATENT LAW.....19

VI. THE FEDERAL CIRCUIT APPLIED TIME HONORED LEGAL PRINCIPLES IN REACHING THE LEGAL CONCLUSION THAT THE PATENT WAS BARRED..... 21

VII. THERE IS NO INCONSISTENCY OR UNPREDICTABILITY IN THE APPLICATION OF THE ON-SALE BAR BY THE FEDERAL CIRCUIT..... 23

VIII. THE MODIFICATION TO THE LAW SOUGHT BY THE PETITIONER WOULD DECREASE THE CERTAINTY OF INVENTORS..... 28

CONCLUSION..... 29

TABLE OF AUTHORITIES

Case — Page

Anderson v. Bessemer City,
470 U.S. 564 (1985).....7, 9, 14

Atlantic Thermoplastics Co., Inc. v. Fayer Corp.,
970 F.2d 834 (Fed. Cir. 1992), *suggestion for reh'g in banc denied*, 974 F.2d 1279, 974 F.2d 1299 (Fed. Cir. 1992).....18

Barmag Barmer Maschinenfabrik AG v. Murata Mach., Ltd.,
559 F. Supp. 491 (W.D.N.C. 1983), *aff'd*,
731 F.2d 831 (Fed. Cir. 1984).....18, 20

Burke Elec. Co. v. Indep. Pneumatic Tool Co.,
234 F. 93 (2nd Cir. 1916).....27

D.L. Auld Co. v. Chroma Graphics Corp., 714 F.2d 1144 (Fed. Cir. 1983), *cert. denied*,
474 U.S. 825 (1985).....20

Envirotech Corp. v. Westech Eng'g Inc., 713 F. Supp. 372 (D. Utah 1989), *rev'd*, 904 F.2d 1571 (Fed. Cir. 1990).....*passim*

TABLE OF AUTHORITIES (Continued)

Case .... Page

General Elec. Co. v. United States, 206 U.S.P.Q. (BNA) 260 (Ct. Cl. Trial Div. 1979), *aff'd on other grounds*, 654 F.2d 55 (Ct. Cl. 1981).....20

Gould, Inc. v. United States, 579 F.2d 571 (Ct. Cl. 1978).....20

Hobbs v. United States Atomic Energy Comm'n, 451 F.2d 849 (5th Cir. 1971).....25, 26

Intel Corp. v. Int'l Trade Comm'n, 946 F.2d 821 (Fed. Cir. 1991).....18, 20, 29

In re Caveney, 761 F.2d 671 (Fed. Cir. 1985).....18, 20

In re Theis, 610 F.2d 786 (C.C.P.A. 1979).....20, 29

J.A. LaPorte, Inc. v. Norfolk Dredging Co., 787 F.2d 1577 (Fed. Cir. 1986), *cert. denied*, 479 U.S. 884 (1986).....18

Keystone Retaining Wall Sys., Inc. v. Westrock, Inc., 997 F.2d 1444 (Fed. Cir. 1993).....18

TABLE OF AUTHORITIES (Continued)

Case — Page

King Instrument Corp. v. Otari Corp., 767 F.2d 853 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986), *appeal after remand*, 814 F.2d 1560 (Fed. Cir. 1987).....18, 20, 21

RCA Corp. v. Data Gen. Corp., 887 F.2d 1056 (Fed. Cir. 1989).....18, 29

Sonoscan, Inc. v. Sonotek, Inc., 936 F.2d 1261 (Fed. Cir. 1991).....18

T.P. Lab., Inc. v. Professional Positioners, Inc., 724 F.2d 965 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 826 (1984).....26

UMC Elec. Co. v. United States, 816 F.2d 647 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1025 (1988).....18, 20

United States v. United States Gypsum Co., 393 U.S. 364 (1948).....8

Statutes and Rules — Page

35 U.S.C. § 102 (1995).....3, 7, 8

35 U.S.C. § 102(b) (1995).....2, 21, 27

Fed.R.Civ.P. 52(a).....11, 12, 14, 16, 29

Other Authorities — Page

U.C.C. § 2-204.....19

U.C.C. § 2-311.....19

RULE 29.1 STATEMENT

Respondent, Quipp, Inc., is a private corporation of the United States and the owner of Quipp Systems, Inc.

OPINIONS BELOW

The opinion of the Court of Appeals and that of the District Court are reprinted in the Appendix to the Petition commencing at page A4 and A21 respectively.

STATEMENT OF THE CASE

A Swiss company, Ferag AG, Petitioner herein, established a U.S. company, Ferag, Inc. as its exclusive U.S. distributor. Because Ferag, Inc. was not successful, Robert Smallacombe was hired by Ferag, Inc. and given "complete management authority". Mr. Smallacombe's compensation included 50% of the shares of Ferag, Inc. with the shares to revert back in the event that Smallacombe did not meet certain financial goals within an eight year period. In its standard operating procedure, Ferag, Inc. purchased some of its equipment from Ferag AG and sold it to its newspaper customers.

Ferag, Inc. obtained a contract with the Bergen Record newspaper to supply, *inter alia*, a gripper conveyor system. The contract specified the capabilities of the system but not the gripper to be supplied. The agreement between Ferag, Inc. and the Bergen Record expressly recognized that "prototype" equipment was being developed and would be installed and that Ferag would "have to engineer" new conveyor systems to be compatible with the other equipment

being purchased. [RA1-RA7][1]. The gripper installation at the Bergen Record was intended both by Ferag, Inc. and by the Bergen Record to be Ferag, Inc.'s showplace in the United States. [RA7].

During the pendency of this contract, and before the critical date[2], Ferag AG completed the development of a new gripper[3] and elected to supply it through Ferag, Inc. in the fulfillment of the contract. Ferag AG manifested its intent to supply the new gripper in an order confirmation to Ferag, Inc., prior to the critical date. [A9]. The Bergen Record was not advised by Ferag, Inc. of the specifics of the gripper which was being supplied, but the new gripper was installed, albeit after the critical date.

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[1] As used herein, "Petition x" refers to page x of the Petition for A Writ of Certiorari herein; "A x" refers to page x of the Appendix to the Petition; and "RA x" refers to page x of Respondent's Appendix.

[2] The "critical date" is the date one year prior to the filing of the patent application for the new gripper. There is no disagreement that the critical date is January 15, 1980 and that any offers of sale of the new gripper prior to the critical date render the patent on the new gripper invalid under 35 U.S.C. § 102(b).

[3] The successful completion of the new gripper well prior to the critical date was stipulated by the parties at trial. [RA8]

There were two sales, *i.e.*, from Ferag AG to Ferag, Inc. and then from Ferag, Inc. to the Bergen Record.[4]

As to the first sale, the fact that the gripper was complete and that Ferag, Inc. knew what it was receiving is not contested. However, the trial court, sitting without a jury, held that there was no sale because there was only one entity involved, *i.e.*, that Ferag AG so controlled Ferag, Inc. that sales between Ferag AG and Ferag, Inc. could be ignored for the purpose of 35 U.S.C. § 102. The Federal Circuit reversed as a matter of law because Smallacombe had complete management authority of Ferag, Inc. and because Smallacombe's ownership of 50% of the shares prevented any change in that complete management authority and thus negated control of Ferag, Inc. by Ferag AG.

As to the second sale, the trial court held that there was no sale because the Bergen Record did not know that it was to receive the new gripper. The Federal Circuit reversed as a matter of law[5] because it is the identity of the thing sold and not the customer's knowledge which controls, and

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[4] The agreements between Ferag AG and Ferag, Inc. provided that Ferag, Inc. would purchase various equipment from Ferag AG and resell such equipment to Ferag, Inc.'s customers. [A 65].

[5] The Federal Circuit also found that the trial court had committed clear error.

because the evidence was clear and convincing that Ferag AG intended and manifested its intent prior to the critical date to supply the new gripper and thus to profit from the invention prior to the critical date.

Petitioner has asserted a number of false facts, has asserted that a subjective standard -- directly contrary to the objective standard stated in the Federal Circuit's opinion -- was applied to the false facts, and has conjured up the specter of possible unpredictable results and possible inconsistent decisions from the application of its imagined standard to the false facts. It is this **possibility** of unpredictable results and inconsistent decisions, falsely presented as fact, on which Petitioner relies in its attempt to pique the interest of this Court.

The heart of Petitioner's argument is not that the Federal Circuit's application of well settled law is in error, but that the well settled law should be different, *i.e.*, the law which controls the on-sale bar **should** focus on the customer's knowledge of the thing sold rather than the identity of the thing sold. While Petitioner has not so indicated, Petitioner seeks to overturn substantial legal precedent with a naked argument that unpredictable results **could** result from the continued application of that substantial legal precedent.

SUMMARY OF THE ARGUMENT

There are no Rule 10 considerations favoring the granting of the Petition.

The Federal Circuit correctly found that there were two barring sales prior to the critical date, holding that the trial court made two errors as a matter of law, *i.e.*, (1) that the first sale did not occur because Ferag AG controlled Ferag, Inc. and (2) that the second sale did not occur because the controlling factor was the buyer's knowledge of the invention rather than the identity of the thing offered by the seller for sale. The test incorrectly used by the trial court improperly focuses on narrow contract analysis instead of being concerned with whether the inventor has commercially exploited his invention. To the extent that the trial court's holding was a finding of fact rather than a conclusion of law, the Federal Circuit expressly acknowledged and applied the correct standard of review in finding clear error.

Petitioner incorrectly asserts that the change in the law which it seeks will eliminate inconsistent decisions and provide greater certainty for inventors as to whether a bar has occurred. However, there are no inconsistent decisions in the many decisions rendered on this point by the Federal Circuit since 1984, all of which would have to be overruled. In addition, the substitution of (a) an inquiry into the mind of a prospective buyer for (b) an inquiry as to the thing offered for sale will increase, not decrease, the uncertainty of inventors as to when a patent is barred.

PETITIONER HAS TAKEN GREAT LIBERTY WITH THE FACTS IN IDENTIFYING THE QUESTIONS PRESENTED

A fundamental flaw in Petitioner's argument is its lack of recognition that the question of whether an on-sale bar was present is a question of law, albeit based on subsidiary questions of fact. As such, the Federal Circuit properly reviewed the ultimate determination (of law) *de novo* while reviewing the subsidiary fact questions under the clearly erroneous standard. [A11].

Petitioner apparently disagrees with the weight which the Federal Circuit accorded various of the subsidiary facts[6]. However, the Federal Circuit considered all of the subsidiary facts in making its legal determination, and the determination of the ultimate question of law adversely to Petitioner does not mean that the Federal Circuit ignored any subsidiary fact. To the contrary, the Federal Circuit accepted each of the trial court's subsidiary facts except those which it found to be clearly erroneous.

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[6] The Petitioner provides no basis for its theory that the subsidiary facts which the Federal Circuit did not accept are more "critical" than the subsidiary facts which the Federal Circuit did accept.

Question 1. In posing a question regarding a conflict with the pronouncements of this Court in *Anderson v. Bessemer City*, 470 U.S. 564 (1985), petitioner states that the Federal Circuit:

a. failed "to accept a critical[7] fact finding" regarding control of a U.S. subsidiary, Ferag, Inc., by a Swiss parent corporation Ferag AG; and

b. ignored oral testimony and documentary evidence in its decision.

The first statement is true. As discussed below, the Federal Circuit justifiably refused to accept the finding of fact that "Ferag Inc. was not a separate entity from Ferag AG for the purposes of 35 U.S.C. § 102". [A47, ¶6.].

The second statement is demonstrably wrong. The decision of the trial court was based "on the proportion of outstanding shares held by the various parties, Ferag AG's ability to control critical materials and products; and the terms of the Operator's and Shareholder's agreements to which Mr. Smallacombe was a party". [A47, ¶6.]. The Federal Circuit did **not** ignore the evidence on which the trial court relied, for the trial court's fact finding is quoted [A12] and discussed at length, *i.e.*, the evenly split proportion of shares indicative of shared control [A7; A12], Ferag AG's ability to control materials and products indicative of an

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[7] Ibid.

exclusive distributorship relationship [A13], and the terms of the agreements which gave Smallacombe "complete management authority". [A7-8; A13].

The Federal Circuit accepted each of the subsidiary fact findings on which the trial court relied, but nonetheless concluded as a matter of law that "a requirement of mutual consent in a few limited circumstances, not implicated here, cannot change 'complete management authority' to control by Ferag AG." [A13]. The Federal Circuit went on to state "To the extent that this conclusion rests on factual findings, the district court clearly erred". [A14, n.2].

To the extent that this holding is a finding of fact rather than a conclusion of law, the Federal Circuit followed the correct standard for overturning fact findings. As stated by this Court in *United States v. United States Gypsum Co.*, 393 U.S. 364, 395 (1948):

> A finding is ' clearly erroneous' when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed.

The Federal Circuit expressly discussed the evidence on this issue and held that it was "convinced" that Ferag AG and Ferag, Inc. were separate entities for 35 U.S.C. §102 purposes. [A12]. Thus, Petitioner's allegation that "there was no recognition by the Federal Circuit of its obligation to

accept fact findings based on competent evidence" [Petition 13] is demonstrably wrong.

Question 2. In posing a question regarding a conflict with the pronouncements of this Court in *Anderson v. Bessemer City*, 470 U.S. 564 (1985), Petitioner states that the Federal Circuit:

a. failed to accept a critical[8] fact finding regarding the belief of a customer as to what device it had purchased; and

b. ignored oral testimony and documentary evidence in its decision.

Neither one of these two statements is true. The Federal Circuit did **not** refuse to accept the fact finding as to the customer's belief, for (1) the trial court did not actually make such a fact finding [See A46-A48], and (2) the Federal Circuit conceded that the fact **may** exist [A17] in holding as a matter of law that such fact was not controlling, *i.e.*, that the belief of the customer was "the wrong legal standard" [A14] and that the case cited by the trial court as support had been "misread" [A15].

The second statement is also demonstrably wrong. The trial court referred to "the proposal drawings [given to the customer] . . . , the conveyor system shown to customers

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[8] Ibid.

at Ferag AG's European facility; the promotional literature shown to customers; and the time Ferag AG first began to construct [the patented] prototype" as being "most reliable and creditable" [A47, ¶5] when compared to the "inconclusive" live testimony of Mr. Smallacombe, the deposition testimony of Mr. Hyatt and the "sales agreements and invoices" [A46-A47; ¶3-4].

The Federal Circuit expressly referred to the trial court's dismissal of Quipp's testimony [A14], the date on which work was begun [A9] and the dismissal of Quipp's "documentary evidence as inconclusive" [A14]. The Federal Circuit stated "We review the ultimate determination *de novo*, but any subsidiary fact findings must be reviewed, in this case, for clear error" [A11]. Having articulated the correct standard, the Federal Circuit held

> We are persuaded that these documents, including the various agreements, are conclusive proof that the patented invention was on sale prior to the critical date. To the extent that this conclusion rests on factual findings, the district court clearly erred. [A14, n.2].

Thus, Petitioner's allegation that "there was no recognition by the Federal Circuit of its obligation to accept fact findings based on competent evidence" [Petition 13] is demonstrably wrong.

Question 3. In posing a question regarding the desirability of modifying the Federal Circuit's test for determining whether an invention has been placed "on sale", petitioner states that:

a. the Federal Circuit's standard is a "subjective 'policy balancing' standard" rather than an objective one;

b. that the present standard has fostered inconsistent decisions and the unconstitutional deprivation of patent rights; and,

c. that the present standard has violated *Fed.R.Civ.P.* 52(a).

Not one of these three statements is true.

The Federal Circuit's test for determining whether an invention is on-sale is **not** subjective, for the Federal Circuit stated "We emphasize that this is an **objective** test, and that at its heart lies the inventor's attempt to commercialize the invention" [A16, emphasis supplied].

The second statement is **not** supported by the citation to any decision in which the law applied is inconsistent with the law applied in this case. Petitioner has cited *Envirotech Corp. v. Westech Eng'g Inc.*, 904 F.2d 1571 (Fed Cir. 1990) as reaching a different result than reached in this case on the same facts, but as discussed *infra* and by the Federal Circuit in its decision, the facts are not the same. The contract in *Envirotech* was for old unpatented technology and was subsequently novated **after** the critical date into a contract for the new patented technology. In contrast, the contract in this

case was initially ambiguous as to whether old or new technology was to be supplied, but was confirmed in writing as being the new patented technology **prior** to the critical date.

The third statement regarding the violation of *Fed.R.Civ.P.* 52(a) in this case is demonstrably wrong as discussed *supra* in connection with Issue 1 and Issue 2.

REASONS FOR DENYING THE WRIT

I. NONE OF THE RULE 10 CONSIDERATIONS ARE PRESENT

Petitioner does not assert that the Federal Circuit has so far departed from the accepted and usual course of judicial proceedings as to call for an exercise of this Court's power of supervision.

Petitioner does not assert that the Federal Circuit has decided a federal question in a way which conflicts with applicable decisions of this Court.

Petitioner does not assert that the decision of the Federal Circuit conflicts with the decision of another United States Court of Appeals on the same matter, nor even that the decisions of the Federal Circuit are internally inconsistent as to the law. Petitioner asserts only that the **result** of the decision of the Federal Circuit in this case is inconsistent with the result reached by the Federal Circuit in its prior decision in *Envirotech Corp. v. Westech Eng'g Inc.*, 904 F.2d 1571 (Fed. Cir. 1990).

II. THE FEDERAL CIRCUIT FOLLOWED RULE 52(a)

Petitioner asserts that the Federal Circuit totally disregarded *Fed.R.Civ.P.* 52(a) in that the decision does not expressly refer to Rule 52(a) and did not in its opinion cite *Anderson v. Bessemer City,* 470 U.S. 564 (1985). However, no authority has been cited, or can be cited, for the proposition that the Federal Circuit is required to expressly cite Rule 52(a) or any prior decision of this Court.

Contrary to the assertion of Petitioner, the Federal Circuit expressly recognized the scope of its review, stating:

> The ultimate determination that a product was placed on sale under section 102(b) is a question of law, based on underlying facts. [citations omitted] We review the ultimate determination *de novo*, but any subsidiary fact findings must be reviewed, in this case, for clear error. [A10-11].

Thus the reason asserted by Petitioner for granting the writ that "there was no recognition by the Federal Circuit of its obligation to accept fact findings based on competent evidence" [Petition 13] is specious.

It is clear from the decision that the Federal Circuit disagreed with the trial court as to the applicable law[9], and to the extent fact findings were involved, the Federal Circuit found clear error in the trial court's conclusions[10].

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[9] "This is the wrong legal standard". [A14].

"The court misread *Envirotech.*"[A15].

"The district court mistakenly relied on the seller's intent and the purchaser's understanding. But the measure of the bar is what was offered, not the patentee's intent." [A16].

[10] "To the extent that this conclusion rests on factual findings, the district court clearly erred". [A14].

III. REVERSAL OF THE FEDERAL CIRCUIT'S DECISION WOULD REQUIRE A HOLDING THAT THE FEDERAL CIRCUIT ERRED AS TO THE LAW AND AN INDEPENDENT HOLDING THAT THE FEDERAL CIRCUIT COURT HAD DISREGARDED RULE 52(a)

The Federal Circuit held that it was the identity of the thing sold and not the belief of the customer which controlled the legal determination of an on-sale bar. **Independently**, it held that the sale from Ferag AG to Ferag, Inc. also came within the on-sale bar because Ferag AG and Ferag, Inc. were sufficiently independent.

Unless the Federal Circuit erred as to the law as to the significance of the intent of the buyer, the Federal Circuit's alleged failure to accept the trial court's finding that Ferag AG controlled Ferag, Inc., produces no change in the result[11] in this case.

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[11] In an appalling lack of candor before this Court, the Petitioner asserts that "regardless of which legal test was used" the trial court would have to "reach the same conclusion that it did reach . . . because the District Court found that Bergen had contracted to purchase an EP-SCC conveyor device" [Petition, 12-13]. The District Court made no such finding or any other finding which could be argued to have the same result. Indeed, the words "EP-SCC conveyor" do not appear in the District Court's memorandum.

Likewise, the Federal Circuit's alleged failure to accept the trial court's finding that the customer believed it was being sold old technology[12], even if reversed, produces no change in the result in this case.

Because the two holdings are independent of one another, this Court would have to reverse the Federal Circuit on both holdings to change the result of the Federal Circuit's decision.

IV. THE FEDERAL CIRCUIT FOLLOWED WELL ESTABLISHED PRECEDENT AS TO THE LAW, ALL OF WHICH WOULD HAVE TO BE OVERRULED.

The law which the Federal Circuit applied is that "the question is not whether the public knew of the invention, but whether the product sold or offered for sale embodies the invention claimed". [A14-A15].

There is substantial precedent for this holding. *See, e.g.,*

Envirotech Corp. v. Westech Eng'g Inc., 904 F.2d 1571, 1574 (Fed. Cir. 1990);

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[12] In fact, the Federal Circuit did not refuse to accept this finding but found that the trial court had improperly focused on this alleged fact in evaluating the on-sale bar issue.

RCA Corp. v. Data Gen. Corp., 887 F.2d 1056, 1060 (Fed. Cir. 1989);

King Instrument Corp. v. Otari Corp., 767 F.2d 853, 860 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986), *appeal after remand*, 814 F.2d 1560 (Fed. Cir. 1987).

Indeed, in other § 102 decisions involving other factors not present here, the Federal Circuit has repeatedly stated that it is the identity of the thing being offered which controls the § 102 on sale bar. *See, e.g.*,

J.A. LaPorte, Inc. v. Norfolk Dredging Co., 787 F.2d 1577, 1580 (Fed. Cir. 1986);

UMC Elec. Co. v. United States, 816 F.2d 647, 656 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1025 (1988);

Sonoscan, Inc. v. Sonotek, Inc., 936 F.2d 1261, 1263 (Fed. Cir. 1991);

Intel Corp. v. Int'l Trade Comm'n, 946 F.2d 821, 830 (Fed. Cir. 1991);

Atlantic Thermoplastics Co., Inc. v. Fayer Corp., 970 F.2d 834, 836 (Fed. Cir. 1992), *suggestion for reh'g in banc denied*, 974 F.2d 1279, 974 F.2d 1299 (Fed. Cir. 1992);

Keystone Retaining Wall Sys., Inc. v. Westrock, Inc., 997 F.2d 1444, 1451 (Fed. Cir. 1993);

In re Caveney, 761 F.2d 671, 675 (Fed. Cir. 1985);

Barmag Barmer Maschinenfabrik AG v. Murata Mach., Ltd., 731 F.2d 831, 838 (Fed. Cir. 1984).

To now overrule the law which has been relied upon in all the district courts and in the Federal Circuit since at least 1984 would substantially impact many judicial decisions and countless business decisions, and would defeat the certainty which petitioner urges would result from such a change.

V. THE CHANGE IN THE LAW SOUGHT BY PETITIONER IS CONTRARY TO ESTABLISHED PRINCIPALS OF BOTH CONTRACT AND PATENT LAW

Petitioner urges that there must be a meeting of the minds as to the precise technology to be supplied for the on-sale bar to apply to a contract of sale. To so hold would mean that there could never be a sale of unpatented technology by way of a "capabilities" contract. This is an utter absurdity, for

> An agreement for sale which is otherwise sufficiently definite (subsection (3) of U.C.C. § 2-204) to be a contract is not made invalid by the fact that it leaves particulars of performance to be specified by one of the parties. U.C.C. § 2-311.

Petitioner's argument also requires a significant change in the patent law, for a meeting of the minds is appropriate only for a contract of sale, when it is well settled law that an offer for sale also triggers the on-sale bar and that a sale is not required. *See, e.g.*, *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 860 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986), *appeal after remand*, 814 F.2d 1560 (Fed. Cir. 1987); *UMC Elec. Co. v. United States*, 816 F.2d 647, 656 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1025 (1988); *In re Caveney*, 761 F.2d 671, 675 (Fed. Cir. 1985); *Barmag Barmer Maschinenfabrik AG v. Murata Mach., Ltd.*, 731 F.2d 831, 838 (Fed. Cir. 1984); *D.L. Auld Co. v. Chroma Graphics Corp.*, 714 F.2d 1144, 1147 (Fed. Cir. 1983), *cert. denied*, 474 U.S. 875 (1985); *General Elec. Co. v. United States*, 654 F.2d 55, 60 (Ct. Cl. 1981); *Gould, Inc. v. United States*, 579 F.2d 571, 583-84 (Ct. Cl. 1978); *Intel Corp. v. Int'l Trade Comm'n*, 946 F.2d 821, 830 (Fed. Cir. 1991); *In re Theis*, 610 F.2d 786, 791 (C.C.P.A. 1979).

VI. THE FEDERAL CIRCUIT APPLIED TIME HONORED LEGAL PRINCIPLES IN REACHING THE LEGAL CONCLUSION THAT THE PATENT WAS BARRED.

Petitioner's lengthy discussion of the Federal Circuit's subjective "policy balancing" test has no foundation in fact. Congress balanced the conflicting policies in enacting section 102(b), *i.e.*, an offer of sale more than one year prior to the filing of an application is a bar to a patent.

The Federal Circuit has repeatedly recognized that, in interpreting the on-sale bar, it must strictly enforce the intent of the Congress to promote several underlying policies, including:

(1) discouraging removal of inventions from the public domain which the public justifiably comes to believe are freely available;

(2) favoring prompt and widespread disclosure of inventions;

(3) giving the inventor a reasonable amount of time following the sales activity to determine the value of a patent; and,

(4) prohibiting the extension of the period for exploiting the invention. *See*, *King Instrument*, 767 F.2d at 860.

In implementing these policies, the Federal Circuit must address the legal question as to whether an offer has been made.

The Federal Circuit considered all of the factual circumstances in reaching the legal conclusion that there were two barring sales. As to the first sale from Ferag AG to Ferag, Inc. it considered all of the subordinate facts in reaching the ultimate conclusion that Ferag AG and Ferag, Inc., were different entities as a matter of law. [A14]. To the extent that its holding as to the existence of different entities rested on factual findings, it found clear and convincing error. [A14].

Note that there is no factual issue as to what technology was confirmed by Ferag AG to Ferag, Inc. prior to the critical date. Thus all of the subordinate facts were uncontested in the first sale. The second sale was found as a matter of law when the trial court erroneously relied upon the customer's knowledge as controlling.

VII. THERE IS NO INCONSISTENCY OR UNPREDICTABILITY IN THE APPLICATION OF THE ON-SALE BAR BY THE FEDERAL CIRCUIT

In making its plea for a judicial rewriting of the on-sale bar as interpreted by the Federal Circuit, Petitioner raises the specter of inconsistent decisions and unpredictable results. Only *Envirotech Corp. v. Westech Eng'g Inc.*, 904 F.2d 1571, 1574 (Fed. Cir. 1990) has been identified by Petitioner as resulting in a different result from this decision, and only then because Petitioner refuses to accept the difference in the facts of the two cases.

In *Envirotech*, the seller offered to supply an old technology. At the time of its offer, the seller subjectively intended, **if** the order were accepted, to seek a novation which would permit the substitution of a new technology. The seller's offer to supply the old technology was renewed on re-bid and was accepted. Subsequently, the seller requested permission to substitute the new technology for the old. Before the buyer made a decision as to whether to permit the substitution of the new technology for the old technology, a sales order for the old technology was made and subsequently confirmed by the buyer. Permission to make the substitution was then given and the Federal Circuit held that the conditional uncommunicated intent of the seller to seek at some future time a change in the seller's contract

obligations to supply old technology did not change the contract to sell the old technology into a contract to sell the new technology.

In the present case, and assuming the facts most favorable to the Petitioner[13], the seller, at the time of its offer, had not formed an intent as to which technology would be supplied and the contract specified only a capability which both the old and new technology could meet. The Federal Circuit held that the subsequent identification by the seller (prior to the critical date) in a confirming order of its intent to supply the new technology was an offer of the new technology as of the date of the confirmation. [A17].

The Federal Circuit easily rationalized the two decisions, both being correctly focused on the identity of what was being offered, not upon one party's knowledge or intent. [A15-A18]. There is no inconsistency between these decisions.

In *Envirotech*, the *res* offered for sale was an old technology as specified in the buyer's proposal and in the contract which incorporated the proposal, and the bar did not arise from an offer to meet the proposal, *i.e.*, to supply the old technology. In the present case, the *res* offered was not specified in the initial offer but was subsequently identified (prior to the critical date) in written confirmation documents,

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[13] These facts were controverted at trial.

and the bar did arise from the written confirmation that the new grippers would be supplied to fulfill the contract.

Respondent does not assert that the intent or knowledge of the buyer is always irrelevant to the issue of an on-sale bar. Using time-honored contracts principles, the intent or knowledge of either party can be used to assist the fact finder in identifying the *res* of the contract when the documents are unclear. Here, however, Petitioner does not contest the fact that the parties initially contracted for a gripper conveyor system having a specified transport capability and that Ferag AG subsequently identified in its confirmation documents that it would satisfy its contractual obligations as to that capability requirement using the new grippers.

The decision of the Federal Circuit in this case and in *Envirotech* is entirely consistent with the decision of the Fifth Circuit in *Hobbs v. United States Atomic Energy Comm'n*, 451 F.2d 849 (5th Cir. 1971), which has been cited with approval by the Federal Circuit. In *Hobbs*, the patentee had agreed to develop a gate (valve) for a nuclear device, the gate having certain capabilities. At the time the contract to develop the gate was entered, the patentee did not know how the gate would be designed. Subsequently, and before the critical date, the "design for the [gate] was frozen." Products utilizing the technology were installed after the critical date. The Fifth Circuit affirmed the trial court's holding that the patent was barred for being on-sale from the date the design

was frozen. The Fifth Circuit affirmed the holding of invalidity of the patent, stating:

> The mere existence of a sales contract is insufficient to establish a placing 'on sale' . . . . It is clear from the evidence that the [gate] was a reality more than one year prior to [the critical date] . . . . Even if no delivery was made more than one year prior to the filing of the patent application, the existence of the sales contract for the [patented gate], plus the reduction of that invention to a reality constitutes the placing on sale required by the statute." 451 F.2d at 859.

Petitioner cites *T.P. Lab., Inc. v. Professional Positioners, Inc.*, 724 F.2d 965, 968 (Fed. Cir. 1984), *cert. denied*, 469 U.S. 826 (1984) for the proposition that "[N]umerous prior **Federal Circuit** decisions under section 102(b) are also plagued with confusion and inconsistency" [Petition, p.18, emphasis supplied]. Petitioner's cite is disingenuous, for *T.P. Laboratories* is a decision relating to an experimental/public use bar (not on-sale bar), and in which the Federal Circuit referenced inconsistency in the prior decisions of the various circuit courts to which appeals were taken before the formation of the Federal Circuit. Contrary to petitioner's assertion, *T.P. Laboratories* does **not** refer to any confusion or inconsistency in the decisions of the Federal Circuit. Petitioner's citation of *T.P. Laboratories* as

referring to decisions of the Federal Circuit cannot ethically be justified.

Similarly, Petitioner has taken a quote from *Burke Elec. Co. v. Indep. Pneumatic Tool Co.*, 234 F.93 (2nd Cir. 1916) "The provision ought to be construed favorably to patentees" and has substituted "102(b)" for "The provision". [Petition 16]. The court in 1916 interpreted different language from a different statute "favorably to patentees" to hold that an item was not "on-sale" unless circumstances created "an opportunity for present public use", *i.e.*, the "on hand" doctrine. Since it is undisputed that the new grippers were fully tested and thus "on hand" before Ferag AG confirmed the order [RA8], Petitioner's cite to the on-hand doctrine has no bearing on this case.

Petitioner uses this improperly modified quote to assert that the present statute requires an interpretation favorable to patentees, the unstated assumption being that a inquiry into the state of mind of the customer (a condition not completely under the control of the patentee) is in some undefined way more favorable to the patentee than an inquiry into the thing which the patentee itself offered for sale -- an obvious *non-sequitur*.

VIII. THE MODIFICATION TO THE LAW SOUGHT BY PETITIONER WOULD DECREASE THE CERTAINTY OF INVENTORS.

Petitioner asserts that inventors are not informed as to the acts which trigger the on-sale bar, and that the substitution of (a) a finding as to what the purchaser reasonably understood was being offered for (b) a finding as to what was offered would be an "objective, 'bright line' approach." [Petition 20]. However, Petitioner understandably fails to explain how an inventor gains any certainty from the substitution of an inquiry into the state of mind of his customer (which the inventor does not completely control and may not know) for an offer as to which the inventor himself has absolute control. [Petition 21].

Petitioner asserts that the application of contract principles will increase certainty, *i.e.*, there can be no contract if the seller and buyer do not have a meeting of the minds as to what is being sold. While true, the minds met in this case about a system of agreed upon capabilities without specifying the technology used to achieve that result, and in *Envirotech Corp. v. Westech Eng'g Inc.*, 904 F.2d 1571 (Fed. Cir. 1990), the minds met about the old technology. The meeting of the minds needed to form a contract does not require, as Petitioner seems to assert, that the parties agree upon the technology to be supplied for the on-sale bar to

apply.[14] Since the inventor controls his offer, any change in the law which considers the buyer's state of mind necessarily decreases the inventors' certainty.

CONCLUSION

Petitioner asserts that the Federal Circuit has violated *Fed.R.Civ.P.* 52(a), but the decision itself clearly shows that the Federal Circuit:

(a) expressly recognized the Rule 52(a) standard for review;

(b) found a bar in the sale from Ferag, Inc. to the Bergen Record as a matter of law; and

(c) found a second independent bar in the sale from Ferag AG to Ferag, Inc. as a matter of law, with a holding that to the extent that the trial court's holding was based on factual findings, those findings were clearly erroneous.

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[14] Indeed, it is black letter law that the on-sale bar can be raised by conduct which is insufficient to form a contract. *RCA Corp. v. Data Gen. Corp.*, 887 F.2d 1056 (Fed. Cir. 1989); *In re Theis*, 610 F.2d 786 (C.C.P.A. 1979). The on-sale bar can be triggered by offers for sale and by other conduct by which an inventor attempts to commercialize his invention. *See*, *Intel Corp. v. Int'l Trade Comm'n*, 946 F.2d 821 (Fed. Cir. 1991) (free distribution of a prototype sufficient to raise bar).

Petitioner seeks to overturn a substantial body of well established law in favor of an interpretation which avoids the effects of an inventor's attempt to commercially exploit his invention prior to the critical date. More specifically, Petitioner seeks to modify the application of the on-sale bar from (a) a consideration of what the seller in fact offered for sale to (b) a consideration of what the customer reasonably understood was being offered. [Petition 21].

As the basis for this change in the law, Petitioner asserts that the substitution of a factual inquiry as to a state of mind for a factual inquiry as to the subject matter of the offer will provide greater certainty in the law and eliminate inconsistent decisions. The assertion of increased certainty is specious, and Petitioner has not identified a single conflicting decision which this change in the law would eliminate.

In other words, Petitioner asks the Court to change the well established law so that Petitioner will be relieved of the consequences of its attempt to commercialize the invention prior to the critical date.

Respectfully submitted,

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APPENDIX

[Defendant's Exhibit 117]

PARTNERSHIP AGREEMENT DATED MARCH 13, 1979, BETWEEN FERAG, INCORPORATED (U.S.), FERAG AG (SWITZERLAND) AND THE BERGEN EVENING RECORD CORPORATION

This agreement covers the intent of both Ferag (both United States and Switzerland) and The Bergen Evening Record Corporation to install the Ferag inserting system, both prototype and production models, in the Record's Hackensack, N.J., newspaper plant. The prototype drum is the first drum to be installed at The Record, and the production model drum is the second drum to be installed. With use, it is possible that the production model drum may differ slightly from the prototype drum to improve its production efficiency.

1. Ferag and The Record have agreed to install in Hackensack two (2) identical production models of the Ferag inserting system, each system being composed of one production model inserting drum and ancillary equipment (some combination of palletizers, depalletizers and hoppers), and conveyors from two new offset presses to the Ferag inserting system as well as conveyors from the Ferag inserting system to new tying lines. The basic preliminary configuration of the new presses, Ferag inserting systems, and new tying lines are shown in gross detail on print No. 1.

2. Prior to completing this final installation, Ferag and The Record will complete a prototype installation consisting of one prototype Ferag inserting system. This system will be composed of a prototype Ferag inserting drum and some combination of palletizers, depalletizers, and hopper feeders as well as a conveyor from the existing "C" press to the Ferag prototype inserting system and output conveyors from the Ferag prototype inserting system to two (2) primary and two (3) secondary tying lines as shown in gross detail on print No. 2.

3. While the exact cost of the equipment for both the prototype and final installations will be determined at a later date, both The Record and Ferag anticipate that the normal selling price of the equipment, FOB Bristol, Pa.,(such selling price to include manufacturing cost, a normal profit margin, shipping costs from Switzerland, import duties, and shipping costs to Bristol, Pa.) is as follows:

1	Ferag inserting drum	$350,000
1	Palletizing/Depalletizing station	115,000
1	Hopper feeder	40,000
1	Foot of conveyor	250
1	Folder/Connector	60,000
1	Rotopal (to the extent these rotopals are manufactured in the United States at a lower cost than the manufacturing cost in Switzerland, the selling price will be adjusted in proportion.)	1,500

Both parties agree it is unlikely that the final normal selling price for the equipment listed above will vary by more than 30% from these expected selling prices (other than in the case of rotopals).

4. Installation cost, currently anticipated by both parties to approximate 12% of the equipment selling price, will be borne in every case by The Record for both the prototype and final installations. Freight charges from Bristol will be paid by The Record.

5. Payments between Ferag and The Record and vice versa will be in U.S. dollars; all prices will be expressed in U.S. dolloars; and there will be no recognition of changes in foreign exchange rates in any transactions between Ferag and The Record.

6. In payments to be made by either The Record or Ferag there will be no recognition of the time value of money.

7. New Jersey law will govern all transactions between Ferag and The Record.

8. For the prototype installation as defined in Point No. 2 above, The Record will pay to Ferag 75% of the normal selling price of the equipment as outlined in Point 3 above. In addition, installation costs will be borne by The Record. The payment schedule for this equipment will be as follows:

(a) 15% of the normal selling price on order.

(b) The Record will make equal monthly advances to Ferag beginning one month following the date of the order. The amount of each advance will be determined by calculating the number of months from date of order to March 1, 1980 (the date installation of the Ferag system

begins) and dividing the number of months resulting into 45% of the normal selling price.

(c) 7.5% of the normal selling price on successful production operation of the system, but no later that September 30, 1980.

(d) 7.5% of the normal selling price on successful completion of the final acceptance test, but no later than March 31, 1981.

9. By April 30, 1979, the parties will agree on a final installation schedule, performance criteria, and acceptance test criteria. The design and manufacture of the Ferag inserting system will conform to all applicable United States building and electrical codes. Currently, the parties agree that the Hackensack installation will be available to receive the prototype Ferag system on March 1, 1980, and that this equipment will be installed and fully operational by June 30, 1980. Acceptance testing will be completed no later than March 31, 1981. The parties agree that all reasonable effort will be expended to complete this acceptance testing by September 1, 1980.

10. If the prototype equipment does not complete the acceptance test satisfactorily by March 31, 1981, The Record may, at its sole discretion, return the equipment to Ferag's Bristol, Pa., plant at Ferag's shipping cost for full refund of all equipment payments made.

11. If the prototype equipment meets its acceptance criteria and The Record elects to install one or more production model Ferag inserting systems as described in Point 1 above, the first production model inserting system will be provided to The Record at 75% of the normal selling

price for this equipment. The Record will pay normal installation and Freight charges and provide utilities as required by Ferag. In addition, The Record may purchase from Ferag other equipment for its use in Hackensack generally available to U.S. purchasers for a period of five (5) years from March 13, 1979 at 75% of Ferag's normal U.S. selling price.

12. Upon installation of the first production model inserting system, Ferag will make changes to the prototype system, if required, such that both systems will be identical in every way. Upon the successful acceptance test of the second Ferag system, Ferag will either pay to The Record or vice versa an amount such that all equipment payments to Ferag by The Record, including those for the prototype system, will be no more than 75% of the normal selling price of the Ferag equipment in operation at The Record, it being the intention that upon installation of the production model inserting system, The Record will have acquired both production model inserting systems at 75% of the normal selling price of this equipment while still paying for installation costs of the prototype and production model systems.

13. Both Ferag and The Record agree that new tying lines will be installed in The Record's existing mail room and that Ferag, in completing its detailed engineering work on both the prototype and production model inserting systems, will have to engineer their systems to be compatible with this equipment, the existing "C" press, as well as the two new offset presses. Ferag's engineering responsibility covers its own equipment as well as the press and tying line interfaces. The Record is responsible for press and tying line engineering either itself or through others.

14. While performance and acceptance criteria will be established later, as outlined in Point No. 9, both parties agree to the following preliminary performance criteria for the Ferag system:

(a) 40,000 papers per hour maximum insert speed.

(b) 500 tab pages per paper maximum capacity exiting the inserting drum.

(c) 192 tab pages maximum capacity per paper for palletizing and depalletizing.

(d) 308 tab pages per paper maximum jacket size entering the inserting drum.

(e) 6 inserts into one jacket is the maximum inserting capacity in one pass.

15. Both parties recognize the experimental nature of the undertaking outlined in this Agreement and will exert every reasonable effort to insure the success of both the prototype and final installations. Expenses of each party, except as defined above, will be borne by the party incurring the expense. There will be no recognition of secondary expenses incurred as a result of failure of the equipment or failure to meet agreed upon schedules.

16. Both parties agree to execute a full binding agreement reflecting in substance the above points no later

than April 30, 1979.

17. The Record guarantees the confidentiality of the pricing of this Agreement. The Record understands that concessions by Ferag in this Agreement are made for the purpose of providing a "showplace" in the United States.

FERAG, INCORPORATED

By [signed Reist] [signed Smallacombe]
Walter Reist, Chairman of the Board
Robert J. Smallacombe, President

FERAG AG

By [signed Reist]
Walter Reist, Chairman of the Board

THE BERGEN EVENING RECORD CORPORATION

By [signed Borg]
Malcolm A. Borg, Chairman of the Board

By [signed Heath]
Michael H. Heath, President

11. By September 1979, Ferag had successfully tested a prototype EP-100 gripper.

12. By mid-October 1979, Ferag placed production orders with its suppliers for unique parts to make 5,000 EP-100 grippers. The production orders included detailed specifications for the parts.